The easy Guide on Scalping :

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Forex market gives any trader lots of opportunities. If you don't like spending hours in front of the monitor, if you'd rather trade with quick orders and small profits than waiting a long term order to be closed within a day, you may think about learning scalping.

Many traders believe that scalping is the most profitable style of trading.

According to our research, about **58%** of traders tried scalping in their trading, and if their trading is based on the strategy and they don't open an order by luck just guessing the direction, **about 70% of the experienced traders are extremely successful**.

If you search for the word "scalping" in different forums, you are most likely to see the real traders' comments like this:

"Profitable scalping is more than real, just make sure you know the rules of scalping and your broker would not take the profit away by taking spread."

"Scalping is not personally for me, but I tried it and can see how it does work but you would have to be disciplined.
Apart from it, can't see why scalping wouldn't work."

*"I prefer short term because I don't like high risks.
I believe that it can be very profitable but requires multiple trades and low risk/return."*

"I've scaped with reasonable success for many years.

I don't claim any unreal profits and certainly I don't trade for a living.

I am relaxed while trading and since there's no stress or urgency to make any money or even trade at all on any given day, I am quite happy about scalping.

"I think the ideal progression is to start as a scalper, simply because that allows you to grow your capital the fastest, at the cost of such a style not being compoundable for eventual liquidity reasons.

Though, it is highly important to try on a demo first for quite a long time to make sure that you know exactly when to enter the trade and when to exit."

What is scalping?

Scalping is a trading strategy that relies on more frequent and short-term trades than any other strategy.

"Pip and Run". Scalpers, as the traders who practice this strategy are called, do not seek to make lots of money on any given trade. Rather, they seek to make **as little as several pips per trade**.

Their aim is to make these small profits so often that, by the end of the day, they end up with a significant amount of profit.

The time frame for a scalp trade can be as little as a single minute.

The popularity of scalping is born of its perceived safety as a trading style.

Many traders argue that since scalpers maintain their positions for a brief time period in comparison to regular traders, market exposure of a scalper is much shorter than that of a trend follower, or even a day trader, and consequently, the risk of large losses resulting from strong market moves is smaller.

"light gains make heavy purses"

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Forex scalping is not a suitable strategy for every type of trader. The returns generated in each position opened by the scalper is usually small; but great profits are made as gains from each closed small position are combined. Scalpers do not like to take large risks, which means that they are willing to forgo great profit opportunities in return for the safety of small, but frequent gains.

Who is a scalper?

Scalper is a patient, diligent individual who is willing to wait as the fruits of his labors translate to great profits over time.

A typical scalper will open and close tens, and in some cases, more than a hundred positions in an ordinary trading day, and since none of the positions can be allowed to suffer great losses (so that we can protect the bottom line), the scalper cannot afford to be careful about some, and negligent about some of his positions.

It may appear to be a formidable task at first sight, but scalping can be an involving, even fun trading style once the trader is comfortable with his practices and habits.

Still, it is clear that attentiveness and strong concentration skills are necessary for the successful forex scalper. One does not need to be born equipped with such talents, but practice and commitment to achieve them are indispensable if a trader has any serious intention of becoming a real scalper.

Finally, scalpers should always keep the importance of consistency in trade sizes while using their favored method. Using erratic trade sizes while scalping is the safest way to ensure that you will have a wiped-out forex account in no time, unless you stop practicing scalping before the inevitable end.

Scalping is based on the principle that profitable trades will cover the losses of failing ones in due time, but if you pick position sizes randomly, the rules of probability dictate that sooner or later an oversized, leveraged loss will crash all the hard work of a whole day, if not longer. Thus, the scalper must make sure that he pursues a predefined strategy with attention, patience and consistent trade sizes. This is just the beginning, of course, but without a good beginning we would diminish our odds of success, or at least reduce our profit potential.

What is necessary to know before scalping?

Different Strategies

Since one sizable mistake can wipe out the profits of hundreds of trades taken during a whole day, the scalper must be very diligent in analyzing the market, and disciplined while applying his analysis and executing his strategies.

The role of fundamental analysis in scalping is usually very limited. Many scheduled and unscheduled events provide input to the markets continuously, and as such, even short term movements have some form of macro-reasoning behind them. However, it is exceptionally difficult for the retail trader to keep updated with all kinds of news events occurring throughout the day, and what is more, the markets reaction is itself often erratic and unpredictable. Consequently, it is difficult to use fundamental strategies in scalping.

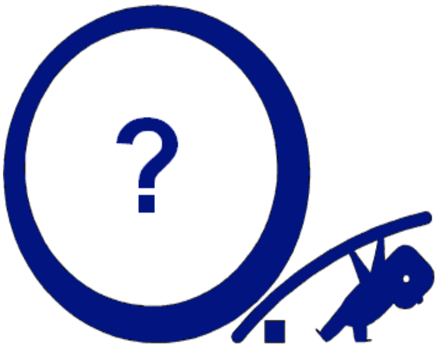
Some traders combine scalping with another approach such as trend following or range trading and only differ from the pure practitioners of these strategies in terms of their exposure times. Although this is a valid approach, the great complexities of adjusting a trend following strategy to suit a micro-timing trade plan makes this impractical in terms of both analysis and execution.

Sharp price movements

Many scalpers like to concentrate on the sharp movements which frequently occur in the currency market. In this case, the aim is to exploit sudden changes in market liquidity for quick gains later. This kind of scalping is not very much concerned about the nature of the market traded, whether prices are trending or ranging, but attaches great importance to volatility. The purpose is to identify the cases where temporary shortages of liquidity create imbalances that offer trade opportunities.

Leverage

Scalping involves small profits compounded over a long time to generate significant sums. But often the returns from scalping are so small that even when combined over weeks or months the returns are insignificant for the amount of effort involved, due to the small size of the actual movements in the currency market.



To overcome this problem, almost all traders involve some amount of leverage while scalping the forex market.

The level of leverage appropriate for a scalper is a subject of debate among traders. But in spite of the debate, the most solid advice that any beginning scalper should heed is to keep leverage as low as possible for at least the first two, three months of trading. On the other hand, since the scalper is certain to use a predetermined stop-loss, and not to tamper with it (a scalper doesn't have that much time to spend on each individual trade), a leverage ratio that is inappropriate to slower traders can be acceptable for him. For instance, a trader whose positions are held over weeks may take a long time before deciding to exit a position, even if the market is against him for a time. But the scalper will immediately close a position as soon as the stop-loss level is reached (and the process is usually automatic).

In short, **a higher level of leverage (up to 20 or 50:1)** can be acceptable for traders who open and close positions in very quick succession, provided that stop-loss orders are never neglected. But there is still one thing: in cases like the aftermath of a surprise Fed decision, or an unexpected non farm payrolls release, spreads can widen instantly, and there may not be enough time to realize the stop-loss order even with a competent broker, and losses would be multiplied if high leverage were to be used. To prevent such outcomes from materializing, it is a good idea to lower the leverage ratio significantly if we seek to trade market events that can cause gaps in the bid-ask spread, and create very large volatility.

Low Spreads or how to choose a broker

The cost of the spread is still an important variable; a successful trading style can easily justify the relatively small fees paid to the broker.

The situation is quite different for the scalper however. **Since the scalper will open and close tens of positions in a short period of time, the cost of his trades will be a very significant item on his balance sheet.**

Let's see an example.

Suppose that a scalper opens and liquidates 30 positions on a day in the EURUSD pair, for which the spread is commonly 3 pips. Let's also suppose that his trade sizes are constant, and that 2/3 of his positions are profitable, with an average of 5 pips profit per trade. Let's also say that the average size of his loss is 3 pips per trade. What is his net gain/loss without the cost of the spread included?

(Positions in black) – (Positions in red) = Net profit/loss

*(20*5)-(10*3) = 70 pips in total.*

Which is a significant gain. Now let's include the cost of the spread, and repeat the calculation.

(Positions in black) – (Positions in red + Cost of the Spread) = Net profit/loss

*(20*5)-(10*3+30*3) = -20 pips in total.*

A nasty surprise awaits our hypothetical trader in his account. The number of his profitable trades were twice the number of his losing ones, and his average loss was about half his average gain. And in spite of that remarkable track record, his scalping activity gained him a net loss. To break even, he would need an average net profit of 9 pips per trade, all else remaining the same.

Now let's repeat the same calculation, with another hypothetical broker where the spread is just 1 pip in the EURUSD pair. The 5 pips per win, and 3 pips per loss (the same scenario which was examined in the beginning) with a one-pip spread would bring us an outcome of

*(20*5)-(10*3+30*1) = 60 pips in total profit.*

In sum, we need to ensure that we choose the broker with the lowest spread for the currency pair we'd like to trade.

A scalper must scrutinize the account packages of different brokers thoroughly before deciding to become a client of one of them.

All this should make it clear that scalpers must trade with innovative, competent, and technologically alert brokers only, who possess the expertise and the technical capability to handle the large volume of orders arising from scalping activity. A no-dealing desk broker is almost a must for a scalper.

The majority of established brokers actually have the stated policy of allowing scalpers to open or close positions in as short a time period as they desire. What is more, since scalpers trade much more frequently than regular traders, they are a good source of revenue for any kind of forex broker.

No broker with an updated software and platform would be willing to deny scalpers the style which they like most unless he wants shrink his own business.

Timely execution, and precise quotes are also important for ensuring that a trader can profit with a scalping strategy. Since the scalper trades many times in the short time frame of an hour, he must receive timely, correct quotes on a system which allows rapid reaction.

If there's slippage, the scalper will be unable to trade most of the time. If there are misquotes, he will suffer losses so often that trading will be impractical.

And we should not neglect the emotional pressures which will be caused by such a stressful, difficult, and inefficient trading environment either. Scalping is already a burdensome activity on one's nerves, and we should not agree to suffer the added trouble of broker incompetence on top of all the other problems which we have.

Make your trading comfortable

Scalping involves technical trading.

In the very short time frames preferred by scalpers, fundamentals have no impact on trading. And when they do have, market reaction to them is erratic and entirely unpredictable.

As such, a sophisticated technical package which supplies an **adequate number of technical tools** is a clear necessity for any scalper.

In addition, since the trader will spend a considerable amount of time gazing at the screen, reading quotes, opening and closing positions, it is a good idea to choose **an interface that is not too wearying on the eyes**.

A bright, graphically intense platform may be pleasant to use and look at at first, but after long hours of intense concentration, the visual appeal will be more of a burden than a benefit.

Also, a **platform that allows the simultaneous display of multiple time frames** can be very useful for a scalper as he monitors price movements on the same screen. Although scalping involves short term trading, awareness of the price action on longer timeframes can be beneficial for money management, and strategical planning.

The Best Currencies for Scalping Forex

a. Majors

This group includes pairs such as the EURUSD, the GBPUSD, the USDCHF, and others which are formed by currencies of the most powerful and dominant economic powers in the world.

Scalpers who prefer to trade ranges, or to exploit slow, and small movements in currency pairs for conservative profits can concentrate their activities in the major pairs.

b. Carry pairs

Carry pairs are liquid, but volatile. Pairs such as the EURJPY or USDJPY are traded all over the world, and trading is activity is hectic, but they are also very volatile, because many financial actors use the Japanese currency to borrow and invest in various risky assets. As a result, when there is a market shock these pairs react in an excessive fashion which is difficult to interpret for trading decisions, especially so in the short time frame favored by scalpers.

We do not advise beginners to scalp with the carry pairs. Experienced scalpers can trade them with typical trend following strategies in order to exploit breakouts and other sharp movements.

Emotional Pressures

Scalping is popular and profitable for some traders, but it is not without its risks.

While trading, many scalpers are similar to marathon runners. They need to capitalize quickly on arising opportunities, and if those opportunities fade, a profitable trade must be a losing one, because a typical scalper will not wait long enough for another opportunity to arise for the same trade.

Controlling your emotions will probably be the first challenge you face as a beginning scalper. It may be difficult to adapt to the violent swings that you will have to deal with routinely, but by avoiding certain time periods, and adjusting your stop-loss order accordingly, there should never be too big a danger in scalping.

For a real scalper, **fear is not the main emotional issue**, unlike the case with many other types of traders. Since risk in each trade is usually very small, and it is possible to stop and exit any position without much trouble, there is little danger of the account being wiped-out or greatly reduced as a result of any single trade. Yet, the major emotional issue faced by scalpers is overtrading and agitation.

Scalping requires patience. The trader must open many positions in the course of a single hour on an ordinary day, and at times, the slow accumulation of profits can be very frustrating. The trader may regret that he’s spending so much time trying to profit from minute price fluctuations. He may feel dismayed that so much effort bears so little fruit. Many other factors can lead to dissatisfaction and unhappiness which can cause the trader to enter an agitated state of mind. And yet, agitation is the worst enemy of a scalper. His finger must press the right buttons on the screen, must enter the correct prices, and place the proper decisions many times during the trading hours, and an uneasy, nervous mind will be prone to making many errors. A nervous mind will make the scalper feel like he's fighting the markets, and lead to many unjustified and deleterious trading decisions.

The scalper must know where to stop, and yet if he's nervous, he'll be unable to stop. Overtrading, based on the belief that the next trade will be the successful one "since one's luck can't go wrong so often" may quickly erode the account balance of any trader, and it's especially dangerous for the scalping strategy. It is on the whole a good idea to suspend scalping activity if you're feeling that the emotional burden of scalping is too much for you at any time. Do not fight yourself, or the market, but stop trading for a while. It is certainly better than losing your wits trying to profit by battling the market, in other words, trying to improve by worsening your condition.

So, shortly the main traits of a scalper:

1. Discipline:

A methodical, even mechanical approach to trading currencies will increase the potential profits of any scalper. Acquiring mental discipline may require time and effort, but its beneficial in every aspect of life, and nothing will be lost as you put your trading career in order. If a trade must be closed, it must be closed. If losses need to be taken, they must be.

Face the realities and act in accordance: success is just around the corner.

2. Patience:

Many people have attained great profitability in trading, but only through persistence and determination. It is even more so in scalping, where minuscule profits are expected to combine into sizable gains.

3. Calm:

Scalpers need to remain calm. Get used to losses and mistakes. Accustom yourself to mending the errors. And all should be well.

4. Regular Trade Sizes:

Don't make the mistake of doubling your trade sizes in response to a chance streak of wins.

5. Concentration:

Scalping can be an intense activity, and a good scalper needs to have a mind which can concentrate effectively on the task at hand for profit. If you're scalper, make sure that the place and time period during which you're active in the market is as peaceful and calm as possible. Ensure that you're not distracted while scalping the forex market.

In conclusion

Advantages of scalping

- Very effective use of capital with minimal risk per trade.
- High percentage win rate.
- Suitable for the trader who is prepared to devote a lot of time and continuous focus to the market.
- Event risk is small as the scalper will usually be almost certain of a fill at the chosen exit point even if conditions suddenly change.
- Knowledge of fundamental analysis not required, although scalpers should be aware of news and/or earnings releases.

Disadvantages of scalping

- Intense, draining and demands a lot of screen time. Accurate timing is vital.
- Trading platform, data provision and connection to the exchange often expensive.
- Danger of "death by a thousand cuts" to the inexperienced.
- Higher cost per unit of profit than longer term strategies.
- Requires complex knowledge of market structure and order flow.
- Can be stressful
- Not suitable for spread betting.

The choice is yours.

Not all traders will do well in scalping, but many can acquire the necessary skills for this strategy by careful practice using a step-by-step approach. As with most other activities, it is better to begin your training at the most basic level and to add upon your gains at each pace to approach perfection.

If you have any questions, please feel free to ask our support team by sending an Email to: **support@ritalasker.com** We will do our best to help you.

Yours,

Rita Lasker & Green Forex Group.

Any additional information: **http://www.ritalasker.com**

Contact Information: **http://www.ritalasker.com/contacts.htm**

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